

Designate and Track: Don't we already do this?

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Topics

- **Why Designate and Track?**
- **Facilities and Entities (Registration)**
- **Designating**
- **Tracking**
- **Reporting**
- **Managing Inventory**

Why Designate and Track

- **Fungibility**
 - Commingling same specification fuels for multipurpose end use
- **Flexibility**
 - Reduces tank requirements
 - Refinery (Baseline versus D&T)
 - Maintain highway volumes
 - Provides ability to meet short term demand spikes

Creates enforceability for the EPA

Facilities and Entities

- Entity – everybody upstream of, and including, the truck rack.
- Facility – place or a bunch of places that handle distillate fuels.
 - Refineries must be refineries
 - Truck terminals must be truck terminals
 - Contiguous pipelines must be one
- Facility designations can change for each reporting period
 - December 31, 2005 start
 - At least 30 days prior

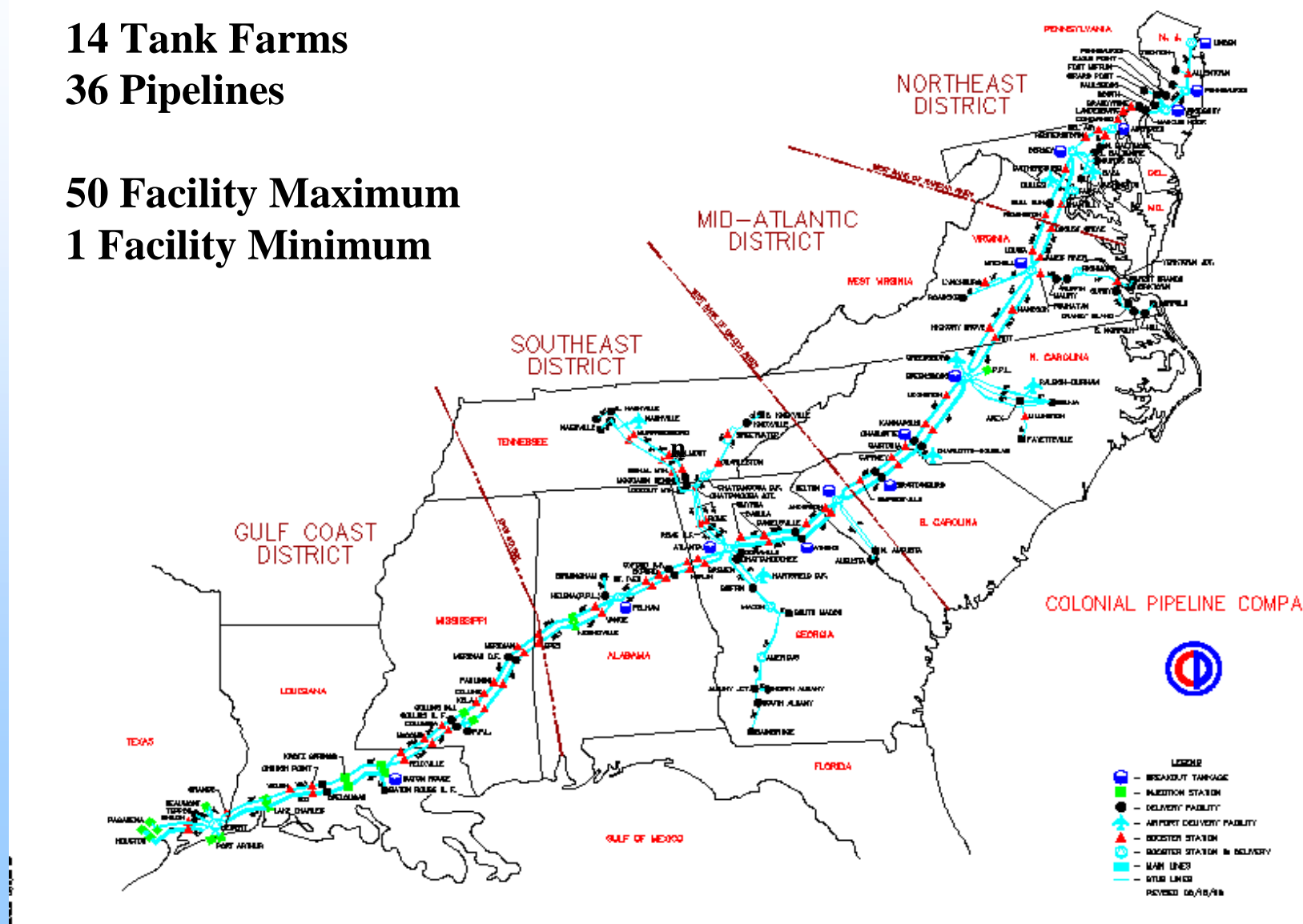
Possible Facility Designations

14 Tank Farms

36 Pipelines

50 Facility Maximum

1 Facility Minimum



Facility Designation Impact

- Simple math



- Greater number of facilities allow for more downgrade
 - Greater volumes allow for greater coverage of upset or abnormal operations
- Since Colonial handles large volumes, creating a higher number of facilities may be the conservative approach.

Designating

- Product Transfer Document Changes
 - Codes may continue to be used for parties upstream of terminals
 - Code must include 15, 500, or >500 to convey appropriate sulfur content
 - Refiner/importer designation is written differently but appear to be the same (80.598)
 - Addition of the facility number on all tickets
 - Starting in June 1, 2006

Tracking

- Volumes are rolled up for each facility
 - Total grade volumes are reported, not individual shipper volumes
 - May require new policies to allocate surplus and losses
- Reconcile volumes
 - One party normally handles ticketing
 - Both parties should agree on volumes before submission to EPA

Reporting

- Quarterly reports
 - Volume received and delivered to each entity
 - Two months to report
- Annual reports
 - Volume received and delivered to each entity
 - Compliance balances
 - August 31
- Statement that volumes are identical to IRS reported volumes
- Signed and certified by a responsible corporate officer

Volume Balance Equations

- $MVB = MVi - MVo - MVinvchg$
- $MVi = MV15i + MV500i$
- $MVo = MV15o + MV500o$
- $MVNBe = MV15binv + MV500binv + \Sigma MVB$
- $-MVB \leq 0.02 \times MVi$
- $HSNRLMB = HSMRLMi - HSNRLMo - HSNRLMinvchg$
- $HSNRLMB \geq 0$
- $(HSNRLMo + HSNRLMinvchg)/HSNRLMi \leq (HOo + HOinvchg)/Hoi$
- $HOB = HOi - HOo - HOinvchg$
- $HOB \leq 0$
- $NR500B = NR500i - NR500o - NR500invchg$
- $NR500B \geq 0$
- $(NR500o + NR500invchg)/NR500i \leq (LM500o + LM500invchg)/LM500i$
- $(\#2MV15o + \#2MV15invchg) \geq 0.8 \times \#2MV15i$
- $\#2MV500o \leq \#2MV500i - \#2MV500invchg + 0.2 \times \#2MV15i$
- $\#2MV500o \leq \#2MV500i - \#2MV500invchg + 0.2 \times (\#1MV15i + \#2MV15i)$
- $\#2MV500o \leq \#2MV500i - \#2MV500invchg + 0.2 \times \#2MV15i + \#1MV15b + \#2NRLM500s$

Managing Inventory

- 20% downgrade (15 ppm to 500 ppm highway)
 - Specific markets may be forced to deal with 15 only, 500 only, or 15/500 combination
- Total highway volume balance
 - Customers may not get back what they put into the system
- Heating Oil volume did not decrease
 - Systems that generate HO losses due to gas/HO interfaces may have a compliance issue